Financial Stability Board
Interest in market discipline

Richard Thorpe, FSB Adviser on Accounting and Auditing
4 June 2015
What is the FSB?

- International body established to address financial system vulnerabilities and to coordinate the development and implementation of strong regulatory, supervisory and other policies in the interest of financial stability
- FSF initiated in 1999 by G7 following Asian crisis
- FSB re-launched by G20 in April 2009 as a successor to the FSF with expanded membership, broader mandate and enhanced operating structure
- Chaired by Mark Carney (Governor, Bank of England) with Secretariat in Basel hosted by BIS
Interest in financial reporting

• Audited financial accounts form the basis of prudential regulation

• Transparent, relevant and reliable financial information for markets helps promote better market discipline
Key FSB workstreams

- Work with IFIAR and the GPPC to promote audit quality and increased professional scepticism on G-SIFI audits
- Established the Enhanced Disclosure Task Force to develop Principles and Recommendations for improved Risk Disclosures (EDTF report on 2013 annual accounts was published on 30 September)
- Work with IASB and FASB on convergence agenda and expected loss accounting for loans
Background to the EDTF

- Basel Pillar 3

- All developed by regulators, not market participants
Issues to be addressed

- General failure of market discipline
- Lack of consistency or comparability of risk disclosure
- Lack of convergence of understanding of risk (regulators, preparers and users all with a different view of risks and capital)
- Banks and auditors unwilling to drive disclosures beyond the requirements of accounting standards
Objectives of the EDTF

- Develop fundamental principles for enhanced risk disclosures
- Recommend improvements to current risk disclosures (including enhanced comparability)
- Identify examples of best or leading practice
Other initiatives

- Basel Pillar 3 revised
- Banks now required to publish reconciliation of regulatory capital
- Greater focus on audit scepticism
- IFRS9 means more relevant accounting and disclosures
Revised accounting for financial instruments

Roundtable held on 9 April to foster consistent and comparable application of new standards on financial instruments. Covered

- Application guidance from standard setters and regulators
- Auditing and enforcement issues
- Potential transition disclosures
- Risk disclosures to facilitate consistency of application and comparability across the frameworks
Questions